

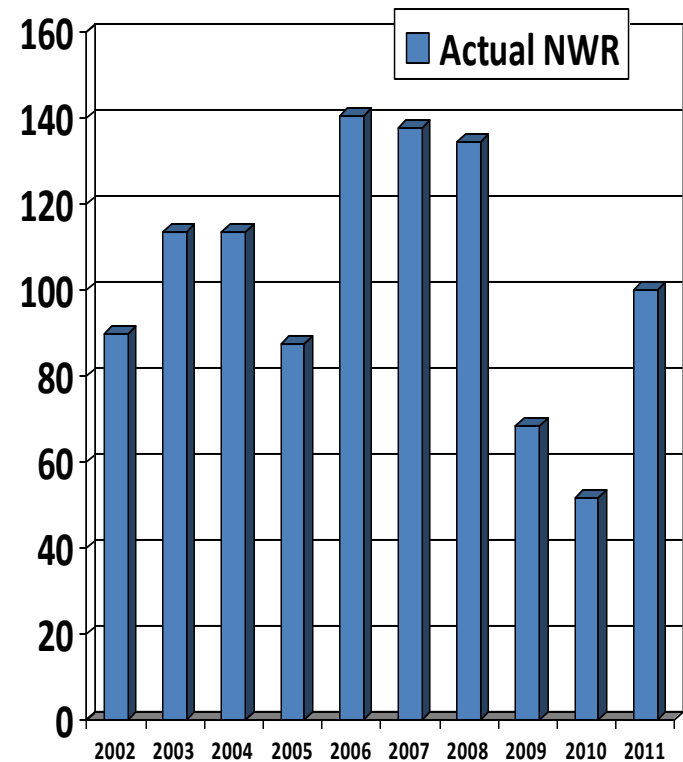
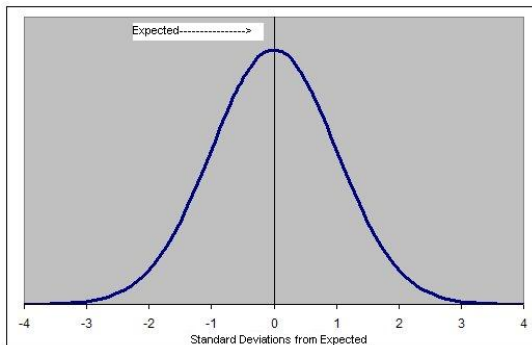
# How much Net Wholesale Revenue to Assume When Setting Base Rates? (Part 2)

Presentation to City Light Review Panel

November 4, 2011

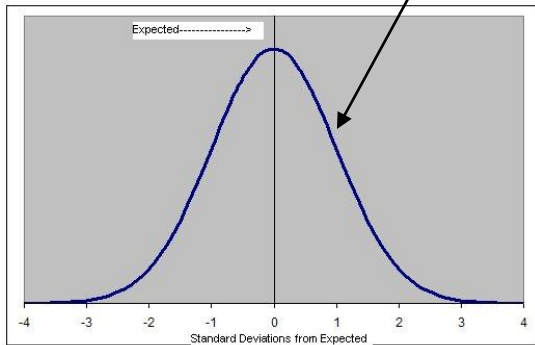
# Historical Net Wholesale Revenue (NWR)

- Revenue has been quite variable, ranging from \$58-\$140 million
- For any given year, NWR is affected by potential prices and volumes:



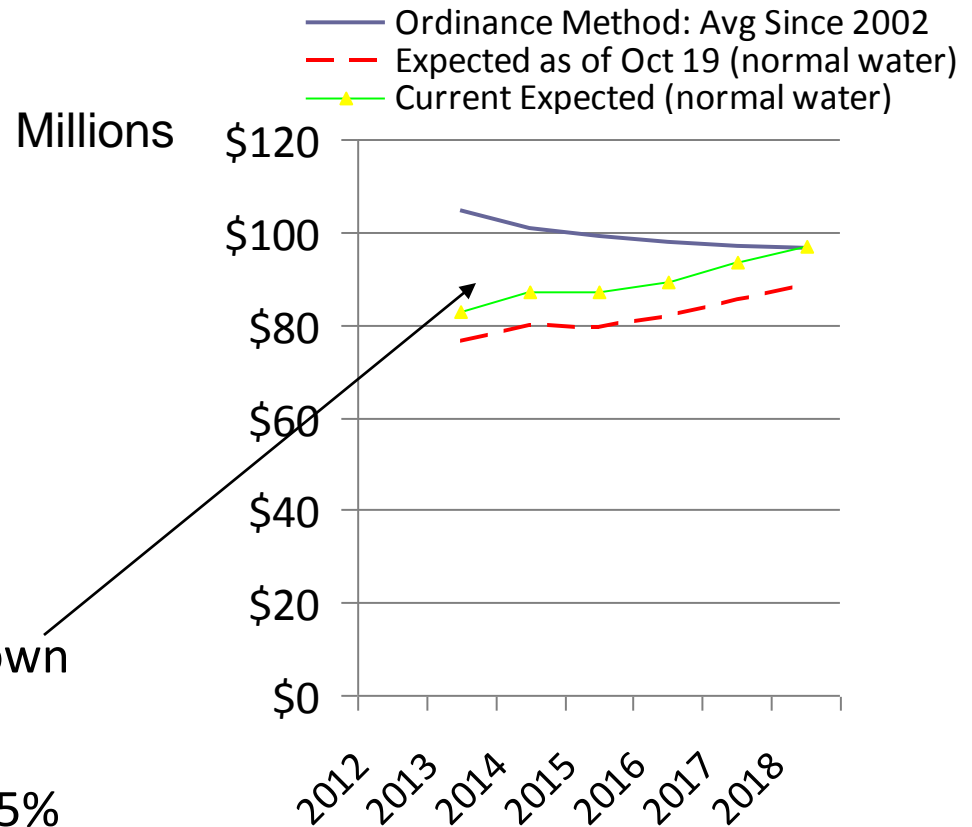
# Problem:

- From 2012 forward, RSA Ordinance specified method significantly exceeds our forecast of revenue based on normal water



- Consequences:
  - Gap causes RSA to be drawn down
  - RSA falls below specified levels
  - Surcharges of between 1.5%-4.5% from 2012-

## **NWR likely to be below level Specified by RSA Ordinance:**

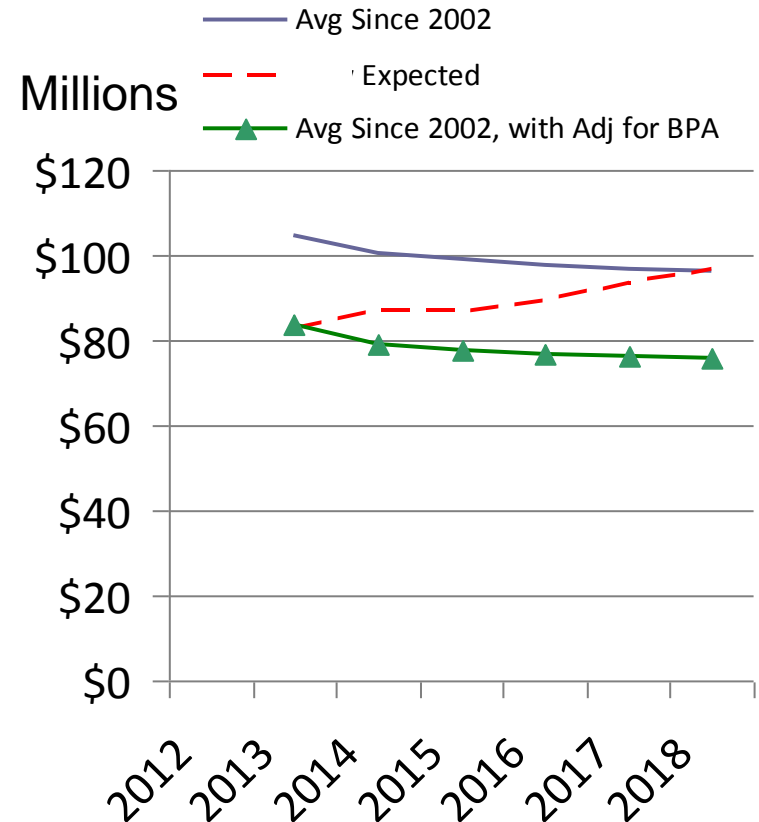


# Three Potential Solutions

- Existing Method, with Adjustment for BPA Contract Volume Change
- Move to Six Year Rolling Average, Also Adjusted for BPA Change
- Move to a conservative number (75% exceedance) over time, and reduce size of fund to mitigate rate impacts

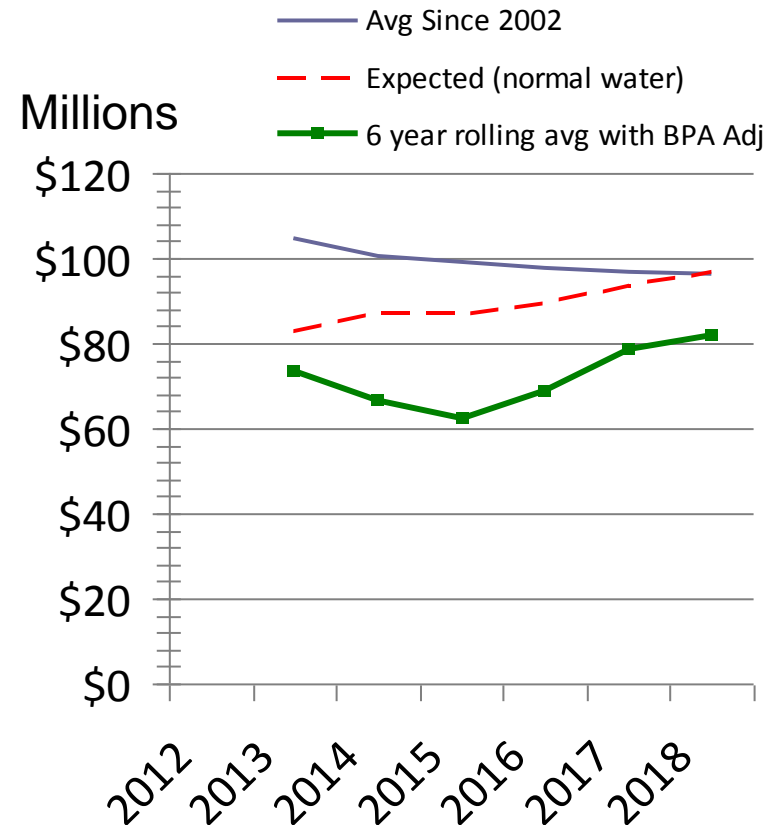
# Existing Method With Adjustment for BPA Contract Change

Option	Issues
1. Make adjustment for reduced volume with new BPA Contract	<ul style="list-style-type: none"> <li>• For 2013, nearly identically matches expected</li> <li>• For future years, is more conservative than our expected revenues assuming normal water</li> </ul>



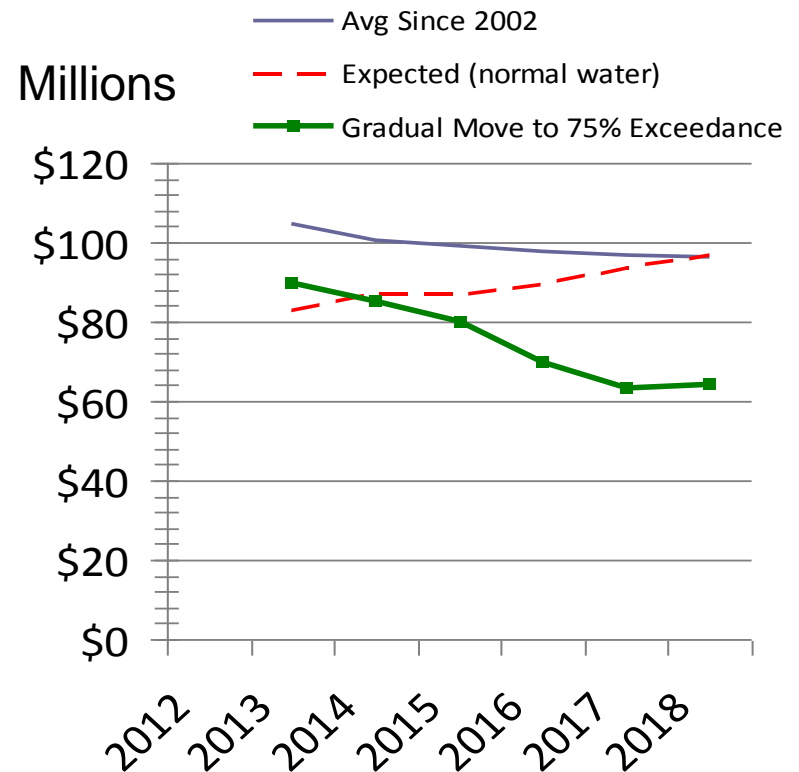
# Six Year Rolling Average (Also with BPA Adjustment)

Option	Issues
2. Shorter-term rolling average, such as six years, also adjusted for BPA volume reduction	<ul style="list-style-type: none"> <li>• More conservative than our outlook</li> <li>• Significantly reduces the likelihood of surcharges, and will likely provide refunds in 2013 forward</li> </ul>



# Move to 75% Exceedance while reducing size of RSA

Option	Issues
3. Move to 75% exceedance, using reduced RSA fund size to mitigate rate impacts	<ul style="list-style-type: none"> <li>•RSA Targeted Balance reduced to \$60M from \$100M</li> <li>•Drawdown cushions rate impacts during transition</li> <li>•Significantly reduces the likelihood of surcharges, and will likely provide refunds in 2016 forward</li> </ul>



# Example of moving to 75% exceedance while reducing size of RSA

	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>
<u>Data</u>						
1 RSA Target (using previous ordinance, basis for baseline rates)	104	99	98	97	96	96
2 SCL Forecast (Normal Water & Expected Prices)	83	87	87	89	93	97
3 NWR Target going to 75% Exceedance with Gradualism	90	85	80	70	63	64
4 Targeted RSA Balance	60	60	60	60	60	60
5 Maximum RSA Balance	75	75	75	75	75	75
<u>Scenario: Actual NWR comes in as expected</u>						
6 Beginning RSA Balance	100	88	80	77	84	100
7 RSA balance withdrawals (draws down RSA balance by \$40)	(5)	(10)	(10)	(10)	(5)	-
8 NWR deviation transfers (Line 2 - Line 3)	(7)	2	7	19	30	33
9 RSA surplus credit to Customers (if prev. Line 10 >\$75)	-	-	-	(2)	(9)	(25)
10 Ending RSA Balance	88	80	77	84	100	108
11 Additional Rev needed to get to target (Line 1 - Line 3 + Line 7)	9	4	8	15	18	7
12 Approximate Additional Rate Increase	1.3%	-0.6%	0.4%	0.9%	0.4%	-1.2%
13 Estimated Typical Residential Bill	57.77	60.79	65.11	68.59	71.89	73.25

0.2%

Highlighted numbers are the 75% exceedance numbers for those years

Line 12: average annual base rate impact is 0.2%



# Comparison of Alternatives- Rate Impacts

Option	2013 Rate Impact  3.4% preferred path plus:	Impact on 2013-18 Avg. Rate Increase	Impact on RSA Surcharges
1. Make adjustment for reduced volume with new BPA Contract	+3.1%	4.7%+0.4%	Reduces likelihood of surcharges, with rebates likely instead.
2. Shorter-term rolling average, such as six years, also adjusted for BPA volume reduction	+5.0%	4.7%+0.3%	“ ”
3. Move to 75% exceedance, using reduced RSA fund size to mitigate rate impacts	+1.3%	4.7%+0.2%	Potential rebates 2016 forward

# Evaluation Criteria

- Rate Transparency
- Stability of Rates Year to Year
- Likelihood of Surcharges
- Base Rate Impact
- Ability to Stay within Established Six Year Rate Path

# Next Steps

- Select alternative for inclusion in Preferred Strategy